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SIPDIS

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DEPT PLEASE PASS TO DEPT OF AGRICULTURE WASHDC
ANKARA PLEASE PASS TO FAS GIFFORD

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TAGS: [ECON](#) [EAGR](#) [EAID](#) [USDA](#) [AJ](#)

SUBJECT: WESTERN AZERBAIJAN: REGIONAL NON-OIL SECTOR
DEVELOPMENT

Classified By: DCM DONALD LU; REASONS 1.4 (B,D)

¶11. (SBU) SUMMARY: Econoffs visited a range of private and primarily agricultural companies in western Azerbaijan around Azerbaijan's second largest city, Ganja, to discuss regional development in the non-oil sector. The team met with Ganja's regional governor, visited the newly opened regional airport, met with the rector of Azerbaijan's sole Agricultural University, and visited a range of agricultural processors and growers, as well as a mid-size mining company. While there were signs of increased construction, some new equipment and some increased economic activity in the region, Econoffs also saw unproductive and underutilized fields even in the part of the country most famous for producing grapes and pomegranates, two of Azerbaijan's biggest agricultural production inputs. END SUMMARY.

Food Processing Plants: Pomegranates and Juice

¶12. (SBU) Econoffs visited two small/medium-size juice processing factories (Gizil Ahmet and InterPak) of the handful that exist in the region, each employing between 20-60 employees. Due to the increased demand for pomegranate juice and concentrate in the past few years, both factories' primary product is pomegranate juice, with other exotic fruit juices making up less than 15 percent of production and sales. Small and medium size enterprises (SMEs) cannot afford to produce the more valuable pomegranate concentrate because equipment is expensive and requires large capital inputs. Many SMEs lack access to credits and financing to modernize or expand operations. While conditions are basic at small processing plants, with old Soviet-era equipment and facilities, a processing company that worked with USAID is expanding and becoming a year-round operation, increasing the number of employees, investing in modern, locally-produced equipment, and diversifying into new export markets.

¶13. (SBU) Many of the juice processing SMEs do not sell on the local market where prices are low, but instead export to countries of the former Soviet Union where prices are higher. Most must import production inputs like bottles, caps and labels, but use local produce for juices. The companies identified their two biggest challenges as: limited capital due to the high cost of credit and the bureaucratic process, especially working with customs officials for importing inputs and exporting juice products. For many small companies the cost of doing business often includes bribing local government officials (taxes, customs). For InterPak, the company that worked with USAID, the biggest benefit it received from the project was knowing and understanding the regulations that allowed them to combat some small-scale

corruption, avoiding unofficial fees for non-compliance with complicated rules.

¶14. (SBU) Econoffs also visited two large-scale juice and concentrate producers, Gilan and MPro. Both companies employ several hundred employees, operate year-round production, have imported top-of-the-line equipment from Europe, and have plans to expand production. Both companies pay attention to sanitation and quality standards, claiming to have the best in Azerbaijan. (Note: Interpak's owners confirmed that their product could not compete with Gilan or MPro's quality.) Both have plans to expand pomegranate concentrate production for export by finding new international buyers. Both producers have alternate production lines which they plan to expand (one produces jams while the other produces long-term milk and various milk products). Both companies acknowledge that their equipment is not used to full capacity at current production levels. Both Gilan and MPro are also increasing various juice productions, some of which are sold on the local market, and introducing new products and leather production. The majority of their products are exported to the former Soviet Union, but also include other markets like the United States.

¶15. (SBU) There is a lack of modern, large-scale agricultural production in Azerbaijan. Gilan and MPro told Econoffs that they plan on establishing farming enterprises in the future to avoid produce shortages. The lack of proper irrigation is the biggest challenge to agriculture and agribusiness in Azerbaijan, Gilan's General Manager said, adding that Gilan imports some of its produce for juice processing. MPro said bureaucratic challenges and linkages to increase demand for its products so it could increase production and use equipment to full capacity, are the two biggest problems it faces. Both companies have rumored ties to high-level GOAJ

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officials.

Cognac and Wine

¶16. (SBU) Econoffs visited two large-scale cognac and wine producers (Tovuz Baltiya and Ganja II Winery), each with several hundred employees, imported inputs like bottles, caps and labels, modern equipment, and plans to expand production. Tovuz Baltiya has strong ties to the Baltic countries and exports 80 percent of the cognac and wines it produces to countries like Russia, Ukraine, Japan and Europe. It sells only 20 percent of its production in Azerbaijan.

¶17. (SBU) Tovuz Baltiya is involved in farming enterprises (grape cultivation), because, like the juice producers, the company has a hard time meeting its input needs by purchasing from local producers. Currently, Tovuz Baltiya buys apples, quince, pomegranates and grapes, and wants to establish a credit system for small farmers to increase capital in the regions and help strengthen individual and SME agricultural production. Tovuz Baltiya representatives asked Econoffs if there were any USG project or company that could help provide small credit loans to individual farmers in the north-western Tovuz region.

¶18. (SBU) Ganja II Winery produces many of its own grapes, and has plans to expand its agricultural production over 200 percent in the next three years to meet rising local demand. Like Tovuz Baltiya, it also purchases grapes from local farmers after testing the produce. With local wine demand increasing, Ganja II Winery's General Manager said, he exports only about 15 percent of his product, selling the rest of his award-winning product on the local market.

Government Officials, Airports and Education

¶19. (SBU) In Azerbaijan's second largest city, Ganja, Econoff

observed more construction, more people and business activity in the streets, and a few more businesses compared to previous years. Ganja's regional Governor agreed that the situation in Ganja is improving: there is more economic activity, the population has increased 30 percent in one year, poverty is down, and utility services (gas, water, electricity) are stable. Rumored to be one of the most progressive regional governors, Ganja's governor lived up to his reputation by telling Econoffs that he is trying to improve the economy by improving infrastructure, creating the right environment (organizing fairs, conferences and trade shows), and supporting entrepreneurial growth rather than trying to direct it. Along with agribusiness, he said there are waste processing and brick production projects underway. He also said that tourism could be a growth sector and pointed out there is a five-star hotel being built and a new, state-of-the-art airport that recently opened.

¶10. (SBU) Econoffs visited Ganja International Airport, which started operating its two runways in October 2006 and now employs 800 people. Built in less than one year, the facility seems modern and sparkling clean, with state-of-the-art equipment. Airport officials said the airport is staffed to service 300 passengers an hour. The airport currently services one weekly flight to Turkey, one daily flight to Russia, and one daily flight to Baku. It previously also had one daily flight to Azerbaijan's Nakhchivan Autonomous Republic, but those flights stopped in August when the plans were re-routed to the Baku-Nakhchivan route to relieve thousands of stranded passengers in Nakhchivan. Ganja-Nakhchivan flights were set to resume in late October when a French-made airplane would be delivered and resume the Baku-Ganja-Nakhchivan route, officials said.

¶11. (SBU) Azerbaijan's Agriculture University is the only agricultural education institution in Azerbaijan. It has been under-funded for years and the quality of the education and enrollment have suffered. Growth in Azerbaijan's agriculture sector has been steadily declining in the past few years and is now anemic. Although 40 percent of those employed in Azerbaijan are in the agriculture sector, most production is small-scale or subsistence farming. Careers in agriculture and veterinary services do not attract Azerbaijan's youth and the lack of demand and prestige is evidenced at the Agriculture University. In fact, despite the universities efforts to establish an avian influenza laboratory and to apply Bologna Process standards to the veterinary sciences, it attracted only 25 veterinarian

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graduates last year. To combat the decline in agriculture and animal services, the university's leadership is cooperating with German agencies to send students to Germany for academic and internship opportunities. University officials asked Econoffs if there were possibilities of establishing educational exchanges and internship training with U.S. institutions or businesses.

Mining

¶12. (SBU) Econoffs met with the management of a mid-size, government-controlled (51 percent) gold mine with American partners, Mis Dagh. Like the other businesses in the region, Mis Dagh's management had plans for expansion and hope to employ approximately 1000 people by fall 2008 as they expand from the exploration phase into the excavation and extraction phases. With the high price of gold and new mining technology, the management says that the operation which started in 2005 will likely be profitable in the years to come.

Comment

¶13. (C) While challenges such as working with customs,

creating market linkages to increase demand, and improving efficiency to make products more competitive abound, many of the companies Econoffs visited were planning to expand production and increase production lines. Generally, agribusinesses preferred to export their products because of higher prices abroad. While basic business management and marketing education is helping SMEs, they face bureaucratic and quality issues when looking to expand into new markets. The lack of access to capital also limits SMEs. Large-scale processors have an advantage when it comes to producing a quality product for export into new markets because they have invested in modern equipment to increase quality and production capabilities. However, most businesses are not yet efficient as staffing levels are too high and modern equipment is often underutilized at current production levels.

¶14. (C) Comment Continued: Many large-scale producers also complained of the lack of availability of local produce that they use as inputs for processing. While there are some relatively large-scale processors in Azerbaijan, it is unclear how many are profitable and how many remain open because of rumored government ties. More than half of the businesses Econoffs visited pointed to local employment and regional development as their primary goals rather than profit seeking. MPro, which produces juice, juice concentrate, milk and milk products, seems to be a profitable large business which faces many of the same challenges as SMEs in Azerbaijan, including conflicts with customs officials. However, despite customs interference and monopolistic powers, some of the government-linked producer's (basically any large-scale processor) profits are plagued by glaring inefficiencies like high import costs, high staffing levels, and lack of demand in foreign markets which limits production levels.

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